NTCA
NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
www.ntca.org

September 12, 2011

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime*, CC Docket 01-92; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45; *Lifeline and Link-Up*, WC Docket No. 03-109**

Dear Ms. Dortch:

On Friday, September 9, 2011, the undersigned, on behalf of the National Telecommunications Cooperative Association ("NTCA"), together with Stuart Polikoff from the Organization for the Promotion and Advancement of Small Telecommunications Companies, Derrick Owens and Gerry Duffy on behalf of the Western Telecommunications Alliance, Paul Cooper from Fred Williamson and Associates, Jeff Dupree from the National Exchange Carrier Association, Mark Gailey from Totah Communications (via telephone), Roger Nishi from Waitsfield and Champlain Valley Telecom (via telephone), Larry Thompson from Vantage Point Solutions (via telephone), and Robert DeBroux from TDS Telecommunications Corporation (via telephone) (collectively, the "Rural Representatives") met with Carol Mattey, Steve Rosenberg, Amy Bender, Rebekah Goodheart, Patrick Halley, Katie King, and Gary Seigel of the Wireline Competition Bureau to address the universal service fund ("USF") components of the reform proposal submitted by the rural associations (the "RLEC Plan") in the above-referenced proceedings.

Specifically, the Rural Representatives provided staff with the attached summary of the reform plan filed in April 2011, as modified by the "Consensus Framework" filed in July 2011. The Rural Representatives discussed the mechanics of the RLEC Plan, and also walked the staff through the assumptions and factors used in developing the estimated impacts of USF reform on rural rate-of-return carriers of last resort ("RLECs") as explained in a recent filing and further in additional materials attached hereto. *See Ex Parte* Letter from Jeffrey Dupree, Vice President, Government Relations, NECA, to Marlene H. Dortch, Secretary, FCC (filed Aug. 29, 2011).

The Rural Representatives addressed and/or committed to provide further information relating to the development of and transitions under the RLEC Plan, including the interplay of legacy USF and new Connect America Fund ("CAF") support as shown in the attachments hereto, the operation of the broadband-capable transmission benchmark in the RLEC Plan, and the effect of other constraints on growth in funding.

The Rural Representatives indicated that the information provided was based upon aggregate industry-wide assumptions, and to facilitate further review of the RLEC Plan, the Rural Representatives provided a sample "Study Area Calculation Template," a copy of which is attached hereto. The Rural Representatives also explained their continuing efforts to work with individual companies and consultants to examine the mechanics of the RLEC Plan, as modified by the Consensus Framework. This further analysis is being used to help determine if any additional adjustment may (or might not) be required to achieve these estimated results based upon the further changes necessitated by the Consensus Framework, as well as to assess whether any adjustments or additional provisions may be necessary to moderate individual company impacts during the transition to the new CAF.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed with your office. A copy of the materials distributed in the meeting is attached hereto. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or mromano@ntca.org.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano

Senior Vice President - Policy

Enclosures

cc: Carol Mattey
Steve Rosenberg
Rebekah Goodheart
Patrick Halley
Katie King
Amy Bender
Gary Seigel

RLEC-Specific USF and ICC Reform Proposal

Step One: Implement short-term ICC reform measures that confirm intercarrier compensation is due for all traffic originating from or terminating to the PSTN regardless of technology, address "phantom traffic" problems, and deter artificial and uneconomic traffic stimulation.

> ***UPDATE FOR CONSENSUS PLAN:*** *VoIP would pay interstate access to start and then transition with other rates; phantom traffic rules would preclude the use of intermediate numbers to disguise a toll call as local for purposes of avoiding access charges.*

Step Two: Effective January 1, 2012, implement short-term USF Reform measures on a prospective basis.

- Impose a limitation on recovery of prospective RLEC capital expenditures based on analyses of booked study area costs, to determine the portion of a carrier's loop plant that has reached the end of its useful life.
- Cap recovery of corporate operations expenses by applying the current HCL corporate operations expense cap formula to all federal high cost support programs.

> ***UPDATE FOR CONSENSUS PLAN:*** *No change.*

Step Three: Promptly encourage States to move intrastate originating and terminating access rates for rural ROR carriers to interstate levels, by using incremental federal CAF funding (i.e., a compensatory restructure mechanism) in conjunction with a federal local service rate benchmark for access rebalancing.

> ***UPDATE FOR CONSENSUS PLAN:***
>
> - *Interstate originating and terminating access rates would be capped.*
> - *Intrastate terminating access rates only would be unified for RLECs at interstate levels in 2 steps (including all transport and all switching). Any Intrastate Carrier Common Line (CCL) will be added to the Intrastate Local Switching rates prior to rate reductions.*
> - *In steps 3 to 5, terminating local switching rates only would be reduced to $0.005 per minute in 3 equal installments for RLECs. Transport and tandem switching for RLECs would remain at the interstate levels.*
> - *In steps 6 to 8, terminating local switching rates only would be reduced to $0.0007 per minute in 3 equal installments for RLECs. Transport and tandem switching for RLECs would remain at the interstate levels.*
> - *The federal local service rate benchmark would be $25, reached by $0.75 SLC increases (which may be imputed) for up to 6 years (or less once $25 is reached).*
> - *There would be no rate reductions at a given step if there is insufficient support funding.*
> - *There would be a regulated intrastate earnings test to ensure that any company earning more than 10% on intrastate regulated operations has the intrastate portion of its restructure mechanism reduced to the extent it is in excess of 10%.*

- *There would be a "rural transport rule" to help protect RLECs from having to transport originating traffic without financial compensation therefor beyond existing meet-points that are located within RLEC wire center boundaries.*

Step Four: Design and implement an RLEC-specific CAF mechanism designed to re-focus existing RLEC USF support on broadband. Support under existing high-cost mechanisms including HCLS and ICLS decline as broadband-focused support phases in.

1. Start with today's interstate revenue requirements.
2. Add support for "Middle Mile" facilities.
3. Revise the separations rules so as to gradually increase last-mile interstate cost allocations based on each company's individual broadband adoption rates, transitioned in over a series of years.
4. Compute RLEC CAF broadband funding amounts by subtracting the product of an urban broadband transmission cost benchmark times broadband lines in service, from actual RLEC network broadband transmission costs. Broadband transmission costs include last mile, second mile, middle mile and Internet connection costs.
5. Recover remaining interstate costs (i.e., those not recovered via RLEC CAF support, transitional ICLS, and current LSS or its CAF replacement) via a combination of end user and other customer charges. These would include today's SLCs, switched access charges (to the extent these charges continue to apply under ICC reform), and special access charges, including charges for wholesale broadband services.

UPDATE FOR CONSENSUS PLAN: *No changes except:*

- *The interstate rate-of-return would be reset from 11.25% to 10%.*
- *Incremental broadband build-out commitments would need to be tied to an individual RLEC's ability to receive incremental USF/CAF support for new investment based upon the capital investment constraints and "budget targets" adopted by the FCC.*

Post-Implementation: Following initial implementation of the RLEC Reform Plan, the Commission should revisit results and consider the need for further modifications in 3 to 5 years.

UPDATE FOR CONSENSUS PLAN: *No changes except:*

- *There would be no firm cap by rule, but the plan as modified would be calibrated to aim for a "budget target" of $2.05B in combined USF and restructure mechanism support in year 1, and to grow to $2.3B in combined USF and restructure mechanism support by year 6.*
- *After 6 years, there would be no set budget for USF unless the FCC sets a new one – and the FCC would have to find first that any new budget limit is in fact "sufficient" under the Communications Act. Instead, the USF would revert to simply ensuring that sufficient support is available based upon the requirements of "universal service" irrespective of a specific budget target.*
- *AT&T and Verizon would defer certain USF funding per their model to satisfy RLEC or other carrier USF/restructure mechanism needs during the budget period.*

1634 Eye Street NW, Suite 510
Washington, D.C. 20006

Jeffrey E. Dupree
Vice President
Government Relations
PH 202-682-2495
FX 202-682-0154
jdupree@neca.org

August 29, 2011

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Intercarrier Compensation Reform Plan (RLEC Plan) Submitted by NECA and Other National Associations Filed April 18, 2011, as Modified Subsequently by a Broader Industry "Consensus Framework" Filed July 29, 2011; WC Docket Nos. 10-90, 07-135, 05-337, 03-109; CC Docket Nos. 01-92, 96-45; GN Docket No. 09-51

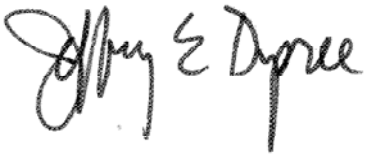
The National Exchange Carrier Association (NECA), National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and the Western Telecommunications Alliance (WTA)(collectively, the Rural Associations) hereby submit additional details of the proposals set forth by the Rural Associations in their April 18, 2011, comments in the above-captioned dockets, as modified by the Industry Consensus Letter (RLEC Plan). The RLEC Plan is a path forward for Universal Service Fund (USF) and intercarrier compensation (ICC) reform in RLEC service areas that not only serves the interests of consumers in these areas, but also consumers nationwide.

The attached chart displays the results of the estimated impacts of the transition to the Connect America Fund (CAF) and the ICC reform transition steps in the RLEC Plan. These estimates were produced using industry-wide assumptions and growth rates, together with preliminary inputs and factors, as detailed in the "Preliminary RLEC CAF Computations - Assumptions and Calculations" component of the attachment, as well as the description of the Restructure Mechanism (RM) calculation. While company-specific network and growth characteristics could produce results on an individual company basis that may vary from the industry-wide assumptions, these assumptions and the preliminary inputs and factors used to date indicate that the aggregate results displayed should reasonably reflect the anticipated levels of CAF/USF and RM support under the RLEC Plan. The Rural Associations are currently working, however, with RLEC consultants to evaluate further the RLEC Plan, as modified by the Consensus Framework. This further analysis will help determine if any additional adjustments may be required to achieve these estimated results based upon the Consensus Framework, as well as to assess whether any adjustments may be required to moderate individual company impacts during the transition to a new plan.

As displayed in the chart, the RLEC Plan and modifications thereto consistent with the Consensus Framework are being designed with the objective of staying within the annual funding target for each of the first six years following implementation. The Consensus Framework proposes that the Commission establish an annual funding target for areas served by rate-of-return carriers that begins at $2 billion and, to the extent necessary to help ensure sufficient funding, increases by $50 million per year (i.e., starting with an additional $50 million in the first year and increasing to $300 million, or a total annual budget target of $2.3 billion, in the sixth year). Such incremental funding will be necessary to enable access restructuring, promote further broadband build-out (but only to the extent supported by increases in USF/CAF funding above current levels for any individual company), and provide a reasonable opportunity to recover the costs associated with existing investments in broadband-capable plant.

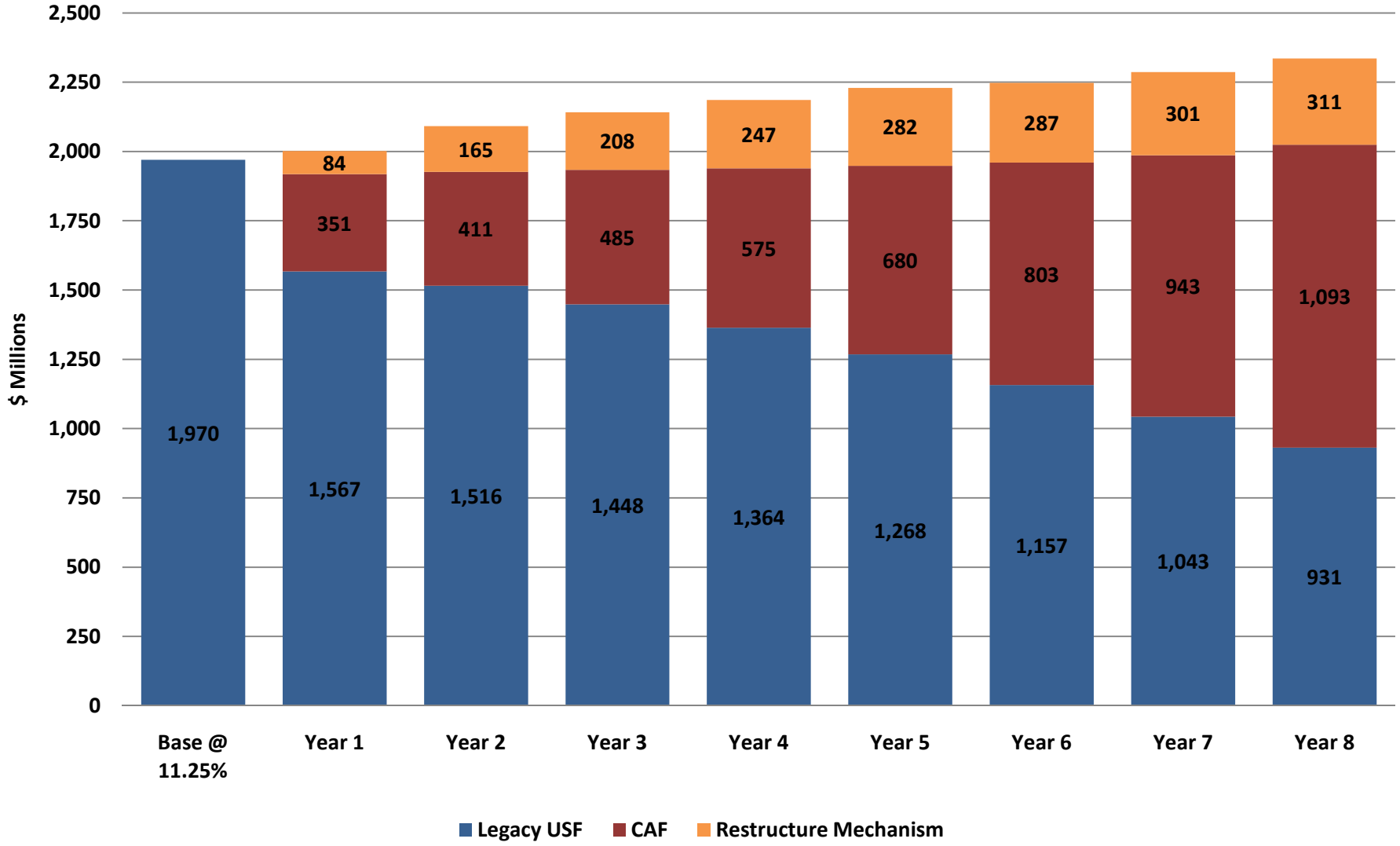
Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office.

Sincerely,



*** WORK IN PROGRESS ***
*** SUBJECT TO CHANGE ***

Preliminary RLEC CAF + RM Computation



Note: Data reflects initial estimated levels of support based on aggregated study area totals and assumptions as explained on the accompanying Assumptions and Calculations document.

08/29/2011

Preliminary RLEC CAF Computations

Assumptions and Calculations

General Assumptions/Notes:

- Preliminary inputs and assumptions were developed for purposes of aiding estimation, investigation, analysis, and potential further resolution/modification. Any given input or assumption may be subject to change based upon the results of this further review and analysis.
- Calculations based on 709 cost company study areas participating in NECA's Common Line pool.
- Amounts are grossed-up to reflect all companies participating in NECA's CL pool (i.e., including average schedule companies). Factor for HC support = 1.1435.
- Revenue requirement data and additional loop costs based on 2009 cost studies recalculated at 10% rate of return.
- RLEC CAF calculation reflects corporate operations expense limitation.
- Additional loop costs assigned to interstate based on the broadband take rate are transitioned over 12 years and the broadband benchmark is adjusted accordingly.
- DSL line counts are as reported to NECA pooling for companies participating in NECA's DSL tariff.
- Whenever individual study area data is not available, NECA pool-wide averages are used.

Data Assumptions and Defaults:

- Interstate Revenue requirement (RRQ) amounts:
    - Sum of CL, SW, SP (excl DSL RRQ) and DSL RRQ
        - Includes the USF high cost loop corporate operations expense limitation and a capital expenditure limitation.
    - Default average annual growth projections:
        - CL RRQ=+2.2%;
        - SW RRQ = -3.0%;
        - SP RRQ (incl. DSL) = +4.9%;
        - LS RRQ = -3.3%;
        - LSS = -2.1%;
        - SLC revs and access lines = -4.7%
    - Special Access RRQ includes the DSL Access Service Connection Point (DSL ASCP) and the interconnection between the DSL ASCP and the ISP.
- Second mile costs are those costs included in the DSL RRQ. In the case of "naked DSL," the loop cost is also included in the DSL RRQ.
- Middle mile costs are estimated amounts for the costs of broadband transmission beyond the DSL connection point to the Internet backbone.
    - Default estimated amounts = $5.34 x broadband lines x 12 based on NECA pool average.
- Additional Loop Costs allocated to the interstate jurisdiction based on the difference between the study area's broadband take rate and the current gross allocator (i.e., 25%), subject to the 12 year transition.
- Broadband take rate = Broadband Lines/Total Access Lines.
    - Broadband lines assumed to equal DSL lines
    - Counts of "Naked DSL" lines should be included in both Total Access Lines and Broadband Lines.
    - Broadband take rate cannot exceed 100% by definition.

Preliminary RLEC CAF Computations

Assumptions and Calculations

- SLC revenues are based on currently effective subscriber line charges applied according to current FCC access charge rules.

Calculations:

- All calculations performed each year.
- Additional Loop Costs allocated to interstate based on the difference between the broadband take rate and the current gross allocator (i.e., 25%).
    - If broadband take rate is less than 25%, use 25% for cost allocation purposes resulting in no additional loop costs being allocated to interstate.
    - Results of the Additional Loop Cost allocation are transitioned over 12 years, i.e., increase in the additional loop allocation by 1/12 each year.
- Broadband RRQ is:
    - Sum of last mile, second mile, middle mile and related Internet connection costs for working broadband lines (including ADSL and naked DSL)
    - Calculated as: (CLRRQ x broadband take rate) + Transitioned Additional Loop Costs + Second mile (i.e., DSL RRQ)+ Middle Mile costs
- Study area benchmark is comprised of the sum of a fixed component and a variable component as follows:
    - Fixed component starts at $19.25 in year1, increasing for all study areas to $24.75 in year 8.
    - Study area variable component based on the study area's take rate. Starts at $6.50 and increases as the take rate increases (e.g., variable component at 25% take rate = $6.50; at 50% take rate = $13.00; at 75% take rate = $19.50).
        - Variable component transitioned over 12 year period. For example, if year 1 take rate is 50%, year 1 variable component would be $6.50 base amount plus 1/12 of additional $6.50 = $6.50 + $0.54 = $7.15; total year 1 benchmark would be $19.25 + $7.15 = $26.40.

Support Calculations:

- Broadband transmission component = (Broadband RRQ per broadband line per month - study area benchmark) x broadband lines x 12 to annualize.
    - Broadband RRQ per broadband line (per month) = Broadband RRQ / Broadband lines / 12
- Grandfathered support = difference between the amount of HCL+SNA+SV support and Transitioned Additional Loop Costs included in Broadband Transmission Component of the CAF. For example, if the HCL amount is $120 and the additional loop costs included in the CAF is $100, grandfathered HCL will be $20 ($120 - $100).
- ICLS is calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ x (1-broadband take rate)) - (SLC Revenues x (1-broadband take rate).
- Local Switching Support, High Cost Loop Support, Interstate Common Line Support, Safety Net Additive and Safety Valve Support are calculated or estimated according to current rules.

RLEC Restructure Mechanism (RM) Calculation

Overview

The RM is designed to recover revenue losses as a result of capping interstate originating and terminating switched access rates at the start of access reform as well as revenue losses caused by reducing terminating access rates to targeted levels in three phases. In Phase I intrastate terminating switched access rates[1] are reduced to capped interstate rate levels in two steps.[2] In Phase II, terminating end office rates[3] are reduced to $.005 per minute in three steps. In Phase III, subject to FCC review in year 5, terminating end office rates are further reduced to $.0007 per minute in three steps. Transport and tandem switching rates remain unchanged at capped interstate rate levels.

Calculation of Revenue Shortfalls

The interstate revenue shortfall is the difference between interstate revenue requirements (RR) in a given step and Local Switching Support (LSS) plus the revenue produced by capped or targeted interstate switched access rates in that step applied to actual demand for that step (year). The revenue loss attributable to capping (i.e., there is no upward adjustment in rates levels to reflect the fact that billable minutes are declining faster than revenue requirements) applies to originating and terminating interstate minutes in steps one through eight. Interstate switched access revenue requirements are adjusted annually based on expected cost study results for the company and reflect a 10% rate of return (RoR). The revenue loss attributable to targeting rates in Phases II and III, steps three through eight, applies only to terminating end office rates.

The intrastate revenue shortfall is calculated in a similar manner to the interstate revenue shortfall by calculating the difference between intrastate terminating switched access revenue requirements in a given step and the revenue produced by targeted intrastate switched access terminating rates applied to actual demand in that step plus net reciprocal compensation revenue[4] in that step. Since intrastate terminating revenue requirement is not available, base year switched access terminating revenue plus net reciprocal compensation revenue is used as a surrogate for revenue requirement.[5] The base year

[1] Includes local switching, information surcharge, tandem switching, local transport (both common and dedicated). Intrastate CCL rates are added to intrastate LS rates and the intrastate transport rate structure is conformed to the interstate rate structure where required at the beginning of step 1.

[2] A step is equivalent to a one year period. The current view is that the first step would begin on July 1, 2012 coincident with the effective date of the 2012 Annual Tariff Filing. On that date intrastate rates would be decreased by one half of the difference between the intrastate rates and the interstate rates. On July 1, 2013, the intrastate rates would be further decreased to the interstate rate levels. The first step of Phase II would be implemented on July 1, 2014, i.e., terminating end office rates would be reduced by one third of the difference between existing interstate terminating end office rates and $.005.

[3] End office rates defined as local switching and information surcharge.

[4] Net reciprocal compensation revenue is defined as the difference between reciprocal compensation revenue received from other carriers and reciprocal compensation expense paid out to other carriers. Since existing reciprocal compensation rates are a composite of end office and transport, a weighted average of terminating switched access end office rates and terminating transport rates would be calculated for each study to compare to the reciprocal compensation rate. If the reciprocal compensation rate is higher than the weighted average access rate, it is reduced to that level(subject to change of law clause); if it is lower, there is no change to the reciprocal compensation rate.

[5] The base year terminating revenue requirement is developed using the company specific base year terminating/originating ratio. The intrastate terminating revenue requirement is adjusted on a going forward basis

revenue requirement is adjusted each year by the percentage change in interstate switched access revenue requirement for the company. The intrastate revenue shortfall results from reducing intrastate terminating rates to interstate levels in Phase I and further reducing terminating end office rates to targeted levels in Phases II and III.

Calculation of RM

The total revenue shortfall is the sum of the intrastate and interstate revenue shortfalls. It is important to distinguish between the two revenue shortfalls because they have different effects on the RM calculation. The RM is calculated by offsetting the combined revenue shortfalls by increases in subscriber line charge (SLC) revenue. Intrastate regulated earnings test applies only to the intrastate revenue shortfall.

Any study area with a residential rate below the $25 local rate benchmark,[6] must increase (or impute) its monthly residential SLC rate by $.75 per year to reach the benchmark, subject to a maximum of six increases of $.75 or $4.50. Additional SLC revenues are used to offset the intrastate component of the RM first. If additional SLC revenues in a given step exceed the intrastate RM, the SLC revenue in excess of the intrastate RM is then used to offset the interstate component of the RM.

An intrastate regulated earnings test is performed using a 10% rate of return (RoR) each year using FCC Part 32 and 36 rules. Earnings in excess of a 10% RoR for that year will be used to offset the intrastate component of the RM calculated for that year after the SLC revenue offset has been taken into account.

by the overall percent change in interstate switched access revenue requirement, i.e., the terminating/originating ratio is not recalculated each year.

[6] Local rate benchmark includes residential basic local exchange rate, intrastate and interstate SLCs, mandatory EAS, and state USF per line.

Your submission has been accepted

ECFS Filing Receipt - Confirmation number: 2011829907623

Proceedings

Name	Subject
10-90	In the Matter of Connect America Fund A National Brooadband Plan for Our Future High-Cost Universal Service Support. .
07-135	In the Matter of Establishing Just and Reasonable Rates for Local Exchange Carriers. .
05-337	In the Matter of Federal -State Joint Board on Universal Service High-Cost Universal Service Support. .. .
03-109	In the Matter of Lifeline and Link-Up
01-92	Developing a Unified Intercarrier Compensation Regime.
96-45	FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE
09-51	In the matter of a National Broadband Plan for Our Future.

Contact Info

Name of Filer: Jeffrey E. Dupree
Attorney/Author Name: Colin Sandy

Address

Address For: Filer
Address Line 1: 1634 Eye St. NW
Address Line 2: Suite 510
City: Washington
State: DISTRICT OF COLUMBIA
Zip: 20006

Details

exparte: YES
Type of Filing: NOTICE OF EXPARTE

Document(s)

File Name	Custom Description	Size
Data Ex Parte 082911.pdf	RLEC CAF Data Ex Parte	41 KB
RLEC Data Exparte Attachment 082911.pdf	RLEC CAF Impact Chart	112 KB

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0193.

Preliminary RLEC CAF Computation
NECA CL Cost Companies Only
($ in millions)

WORK IN PROGRESS

Ln		Base @ 11.25%	RRQ Calculated @ 10% ROR Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
1	Current Interstate Revenue Requirement	$ 1,923.0	$ 1,873.5	$ 1,898.0	$ 1,925.3	$ 1,955.6	$ 1,988.7	$ 2,024.7	$ 2,063.7	$ 2,105.6
2	Middle Mile Revenue Requirement	$ -	$ 91.9	$ 96.9	$ 102.2	$ 107.9	$ 113.8	$ 120.1	$ 126.7	$ 133.6
3	Additional Loop Costs Based @ Take Rate	$ -	$ 39.7	$ 92.9	$ 161.0	$ 245.9	$ 348.4	$ 470.7	$ 613.9	$ 778.3
4	Interstate Rural CAF Components:									
	a. Broadband Transmission Component	$ -	$ 306.7	$ 359.4	$ 424.4	$ 502.8	$ 595.0	$ 702.5	$ 825.3	$ 956.8
	b. LSS component	$ 204.7	$ 199.7	$ 195.3	$ 191.0	$ 186.7	$ 182.5	$ 178.3	$ 174.2	$ 170.2
	c. Transitional ICLS component	$ 709.3	$ 408.6	$ 415.3	$ 419.3	$ 420.6	$ 419.0	$ 414.4	$ 406.4	$ 395.1
5	Interstate RRQ Recoverable through rates	$ 1,009.0	$ 1,090.1	$ 1,117.8	$ 1,153.8	$ 1,199.3	$ 1,254.4	$ 1,320.3	$ 1,398.4	$ 1,495.4
6	Grandfathered HCL Support (incl. SNA and SV)	$ 808.8	$ 762.0	$ 715.0	$ 656.5	$ 586.2	$ 507.4	$ 419.8	$ 332.3	$ 249.9
7	Total Support (Sum of Lns 4a, 4b, 4c and 6)	$ 1,722.8	$ 1,677.0	$ 1,685.0	$ 1,691.2	$ 1,696.3	$ 1,703.9	$ 1,715.0	$ 1,738.2	$ 1,772.0
8	Current Support (HCL+LSS+ICLS+SNA+SV)	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8
	a. Difference (Ln 7 - Ln 8)	$ -	$ (45.8)	$ (37.8)	$ (31.6)	$ (26.5)	$ (18.9)	$ (7.8)	$ 15.4	$ 49.2
9	Average Benchmark values	$ -	$ 26.06	$ 27.21	$ 28.46	$ 29.80	$ 31.27	$ 32.86	$ 34.58	$ 36.69
	a. Fixed component	$ -	$ 19.25	$ 20.00	$ 20.75	$ 21.50	$ 22.25	$ 23.00	$ 23.75	$ 24.75
	b. Variable line component	$ -	$ 6.81	$ 7.21	$ 7.71	$ 8.30	$ 9.02	$ 9.86	$ 10.83	$ 11.94
10	Average Take Rate		39.0%	41.2%	43.4%	45.8%	48.4%	51.0%	53.8%	56.8%

Notes/Calculations:

General:

- Calculations based on 709 cost company study areas participating in NECA's CL pool (2009 cost studies)
- Default annual growth projections: CL RRQ=+2.2%; SW RRQ = -3.0%; SP RRQ (incl. DSL) = +4.9%; LS RRQ = -3.3%; State/Local RRQ = +0.4%; LSS = -2.1%; SLC revs & Access Lines = -4.7%

Ln	Description
1	Interstate RRQ = sum of CL, SW and SP RRQ, including corporate operations expense limitation
2	Middle mile RRQ = $5.34 x broadband lines x 12
3	Add'l Loop Costs based on Broadband Allocation Factor (study area factor increase above current 25%); transitional impact over 12 years, i.e., increase loop allocation 1/12 each year.
4a	Broadband transmission component = (Broadband cost per broadband line - benchmark) x broadband lines Broadband cost per line = (last mile + second mile + middle mile) / broadband lines / 12 Last mile = (CL RRQ in Ln1 x take rate) + Additional Loop Costs (Ln 3); Second mile = DSL RRQ; Middle mile = Ln 2
4b	Current LSS ; limited to local switching revenue requirement
4c	Calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ in Ln1 x (1-take rate)) - SLC Revs x (1-take rate)
5	Sum of lines 1 to 3 minus sum of lines 4a to 4c
6	Grandfathered support = difference between the amount of current HCL+SNA+SV support and Additional Loop Costs (Ln 3) included in Broadband Transmission Component (Ln 4a)
9	Study area benchmark is comprised of a fixed non-line component starting at $19.25 in year 1 increasing for all study areas to $24.75 in year 8, plus a study area variable line component that is based on the study area's take rate, e.g., line component at 25% take rate = $6.50, at 50% take rate = $13, at 75% take rate = $19.50 transitioned over 12 year period.

Preliminary RLEC CAF Computation
Study Area Calculation Template

WORK IN PROGRESS

DATA INPUTS

	Base @11.25	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
CL RRQ	$ 1,750,000	$ 1,800,000	$ 1,900,000	$ 2,000,000	$ 2,100,000	$ 2,200,000	$ 2,300,000	$ 2,400,000	$ 2,500,000
SW RRQ	$ 867,000	$ 848,000	$ 796,000	$ 747,000	$ 702,000	$ 658,000	$ 218,000	$ 580,000	$ 544,000
SP RRQ (excl. DSL)	$ 128,000	$ 125,000	$ 131,000	$ 138,000	$ 145,000	$ 152,000	$ 160,000	$ 167,000	$ 176,000
DSL RRQ	$ 425,000	$ 415,000	$ 435,000	$ 455,000	$ 480,000	$ 505,000	$ 530,000	$ 560,000	$ 585,000
Interstate RRQ	$ 3,170,000	$ 3,188,000	$ 3,262,000	$ 3,340,000	$ 3,427,000	$ 3,515,000	$ 3,208,000	$ 3,707,000	$ 3,805,000
Middle mile RRQ		$ 164,000	$ 167,000	$ 173,000	$ 179,000	$ 186,000	$ 192,000	$ 200,000	$ 205,000
Access Lines	5,000	4,900	4,850	4,800	4,750	4,725	4,700	4,675	4,650
DSL Lines	2,550	2,550	2,600	2,700	2,800	2,900	3,000	3,100	3,200
SLC revenues	$ 400,000	$ 392,000	$ 384,000	$ 376,000	$ 368,000	$ 360,000	$ 352,000	$ 344,000	$ 336,000
Broadband Take Rate		52.04%	53.61%	56.25%	58.95%	61.38%	63.83%	66.31%	68.82%
Additional Loop Costs Based on Take Rate		$ 1,800,000	$ 2,025,000	$ 2,285,000	$ 2,400,000	$ 2,600,000	$ 2,800,000	$ 3,100,000	$ 3,350,000
Broadband RRQ		$ 1,665,735	$ 1,958,057	$ 2,324,250	$ 2,696,895	$ 3,124,598	$ 3,590,085	$ 4,159,777	$ 4,743,763
Local Switching Support	$ 360,000	$ 350,000	$ 335,000	$ 320,000	$ 305,000	$ 290,000	$ 275,000	$ 260,000	$ 245,000
High Cost Loop	$ 2,700,000	$ 2,600,000	$ 2,470,000	$ 2,350,000	$ 2,275,000	$ 2,225,000	$ 2,175,000	$ 2,000,000	$ 1,975,000
Safety Net Additive	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Safety Valve Support	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interstate Common Line Support	$ 1,350,000	$ 1,408,000	$ 1,516,000	$ 1,624,000	$ 1,732,000	$ 1,840,000	$ 1,948,000	$ 2,056,000	$ 2,164,000
Study Area Benchmark Value (calculated)	$ -	$ 26.34	$ 27.74	$ 29.28	$ 30.94	$ 32.69	$ 34.55	$ 36.52	$ 38.84
Study area variable line component (calculated)	$ -	$ 7.09	$ 7.74	$ 8.53	$ 9.44	$ 10.44	$ 11.55	$ 12.77	$ 14.09
Study area fixed non-line component	$ -	$ 19.25	$ 20.00	$ 20.75	$ 21.50	$ 22.25	$ 23.00	$ 23.75	$ 24.75

CALCULATIONS

Ln		Base Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
1	Current Interstate Revenue Requirement	$ 3,170,000	$ 3,188,000	$ 3,262,000	$ 3,340,000	$ 3,427,000	$ 3,515,000	$ 3,208,000	$ 3,707,000	$ 3,805,000
2	Middle Mile Revenue Requirement		$ 164,000	$ 167,000	$ 173,000	$ 179,000	$ 186,000	$ 192,000	$ 200,000	$ 205,000
3	Additional Loop Costs @ Take Rate		$ 150,000	$ 337,500	$ 571,250	$ 800,000	$ 1,083,333	$ 1,400,000	$ 1,808,333	$ 2,233,333
4	Interstate Rural CAF Components:									
	a. Broadband Transmission Component		$ 859,857	$ 1,092,578	$ 1,375,538	$ 1,657,240	$ 1,986,962	$ 2,346,362	$ 2,801,405	$ 3,252,116
	b. LSS component	$ 360,000	$ 350,000	$ 335,000	$ 320,000	$ 305,000	$ 290,000	$ 275,000	$ 260,000	$ 245,000
	c. Transitional ICLS component	$ 1,350,000	$ 675,265	$ 703,299	$ 710,500	$ 711,032	$ 710,688	$ 704,596	$ 692,663	$ 674,796
5	Interstate RRQ Recoverable through rates	$ 1,460,000	$ 1,616,878	$ 1,635,623	$ 1,678,213	$ 1,732,728	$ 1,796,684	$ 1,474,043	$ 1,961,265	$ 2,071,422
6	Grandfathered HCL Support (incl. SNA and SV)	$ 2,700,000	$ 2,450,000	$ 2,132,500	$ 1,778,750	$ 1,475,000	$ 1,141,667	$ 775,000	$ 191,667	$ -
7	Total Support (Sum of Lns 4a, 4b, 4c and 6)	$ 4,410,000	$ 4,335,122	$ 4,263,377	$ 4,184,788	$ 4,148,272	$ 4,129,316	$ 4,100,957	$ 3,945,735	$ 4,171,912

Preliminary RLEC CAF Computation
Study Area Calculation Template

WORK IN PROGRESS

Data Inputs Instructions:

1 Amounts in shaded cells are for input and should reflect best estimates of study area specific operations and growth characteristics. Base year amounts and current support should be calculated at 11.25% ROR; Year 1 to 8 revenue requirements and proposed support should be calculated at 10% ROR. NOTE: none of the cells have been "protected", giving you the opportunity to do other "what-if" calculations on the preliminary RLEC CAF computations. However, doing so will produce results different from the main model.

2 Interstate Revenue requirement (RRQ) amounts = sum of CL, SW, SP (excl DSL) and DSL RRQ; amounts should include the corporate operations expense limitation and estimate of capital expenditure limitation. Default average annual growth projections: CL RRQ=+2.2%; SW RRQ = -3.0%; SP RRQ (incl. DSL) = +4.9%; LS RRQ = -3.3%; LSS = -4.2%; SLC revs = -4.7%

3 Special Access RRQ includes the DSL Access Service Connection Point (DSL ASCP) and the interconnection between the DSL ASCP and the ISP.

4 DSL RRQ includes NIDs, INIDs (up to 50% allocation), DSLAMs, Fiber To The Premise (FTTP) Optical Line Terminal (up to 50% allocation), FTTP Optical Network Terminals (up to 50% allocation), second mile transmission equipment and facilities, ILEC broadband aggregation equipment (not including the DSL ASCP), and in the case of naked DSL, the loop cost. Second mile costs are included in the DSL RRQ.

5 Middle mile RRQ should be actual or estimated amounts for the costs of broadband transmission beyond the DSL connection point to the Internet backbone.
Default estimated amounts = $5.34 x broadband lines x 12. Note that $5.34 is based on NECA pool average. Substitute with more accurate company-specific middle mile cost per line.

6 Counts of "Naked DSL" lines should be included in both Access Lines and DSL Lines. Broadband take rate = DSL Lines/Total Access Lines. Broadband take rate cannot exceed 100% by definition.

7 SLC revenues are to be based on currently effective subscriber line charges applied according to current FCC access charge rules.

8 Additional Loop Costs based on broadband take rate have been calculated by comparing the "before" (i.e., current 25% gross allocator) and "after" (i.e., gross allocator = broadband take rate) results of allocator model runs. Additional loop costs are calculated to be the difference in the resulting Common Line RRQ amounts.

9 Broadband RRQ represents last mile, second mile, middle mile and related Internet connection costs for working broadband lines (ADSL and naked DSL) and is calculated as: (CLRRQ x broadband take rate) + Transitioned Additional Loop Costs + Second mile (DSL RRQ)+ Middle Mile costs

10 Local Switching Support, High Cost Loop Support, Interstate Common Line Support, Safety Net Additive and Safety Valve Support are to be calculated or estimated according to current rules.

11 Study area benchmark is comprised of a fixed non-line component starting at $19.25 in year 1 increasing for all study areas to $24.75 in year 8, plus a study area variable line component that is based on the study area's take rate, eg. Line component at 25% take rate = $6.50, at 50% take rate = $13.00, at 75% take rate = $19.50 transitioned over 12 year period. For example, if year 1 take rate is 50%, year 1 variable line component would be $6.50 plus 1/12 of additional $6.50 = $6.50 + $0.54 = $7.04; total year 1 benchmark would be $19.25 + $7.04 = $26.29.

Calculations:

Ln	Description
1	Revenue Requirement = value from Data Inputs
2	Middle mile RRQ = value from Data Inputs
3	Add'l Loop Costs based on Broadband Allocation Factor (study area increase above current 25%); transitional impact over 12 years, i.e., increase loop allocation 1/12 each year.
4a	Broadband transmission component = (Broadband RRQ per broadband line per month - study area benchmark) x broadband lines x 12 to annualize; broadband lines assumed to equal DSL lines
	Broadband RRQ per broadband line (per month) = (last mile + second mile + middle mile) / DSL lines / 12
	Last mile = (CL RRQ x take rate) + Transitioned Additional Loop Costs; Second mile = DSL RRQ; Middle mile = Middle Mile RRQ
	Study area benchmark is calculated using Data Inputs
4b	Current LSS ; limited to total Local Switching revenue requirement
4c	Calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ x (1-broadband take rate)) - (SLC Revenues x (1-broadband take rate))
5	Sum of lines 1 to 3 minus sum of lines 4a to 4c
6	Grandfathered support = difference between the amount of HCL+SNA+SV support and Transitioned Additional Loop Costs (Ln 3) included in Broadband Transmission Component (Ln 4a)